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SUBJECT: BANK OF CANADA GOVERNOR DEFENDS OPTIMISTIC GROWTH FORECAST
FOR 2010

Ref: Ottawa 0080

¶1. (U) Summary: The Governor of the Bank of Canada predicts the Canadian economy will recover from the global financial crisis in late 2009, with growth approaching 4 percent in 2010. However, Canadian economic recovery is dependent on a range of domestic and international factors, including the success of US economic stimulus measures.

¶2. (U) In statements to the House of Commons Standing Committee on Finance on February 10, 2009, Bank of Canada Governor Mark Carney forecast a 1.2 percent contraction of the Canadian economy in 2009, followed by a 3.8 percent rebound in 2010.

¶3. (U) Canadian recovery is conditional upon a number of existing and proximate conditions. At the domestic level Governor Carney identifies significant and timely monetary policy responses; a well-functioning financial system; fiscal stimulus measures; the past depreciation of the Canadian dollar; and rising levels of domestic investment, consumption and demand. At the external level, Carney links Canada's recovery to improved stability in international financial and housing markets and rebounding demand and prices for commodities. Approximately one third of Canadian growth potential is domestically sourced so Canada's recovery prospects are highly dependent on external factors.

¶4. (U) The Governor underscored stabilization in the global financial system as the major pre-condition for Canadian recovery. In Carney's view, this stability relies on successful execution of the US and EU stimulus and stabilization plans; improved multilateral financial regulation; and adequate resources for the IMF. Carney is optimistic that Canada can contribute strongly to a "macro-prudential" framework for multilateral financial regulation, which will be discussed at the upcoming G-20 meeting in London. Carney sees Canada as a leader in these efforts because "we're the ones with credibility; we're the ones who have taken the right steps."

¶5. (U) Canada's quick monetary response to the financial crisis seems to be paying off. The benchmark lending rate stands at one percent after the Bank of Canada cut rates by 350 basis points since December 2007. Canada now claims negative real interest rates (interest rates lower than core inflation) which, Carney predicts, will boost borrowing and exert powerful stimulus on economic

activity.

¶6. (SBU) The Bank of Canada has been criticized recently for overly optimistic predictions for economic recovery. However, Carney argues that Bank of Canada forecasts are realistic, and are based on a composite of 21 models. "We don't do optimism, we don't do pessimism. We do realism at the Bank of Canada." University of Toronto economists issued a forecast on Monday that parallels the Bank's predictions, calling for marginal growth beginning in the third quarter of 2009, building toward output of 3.7 percent in
¶2010. However, authoritative observers suggest that the Bank of Canada is maintaining a "glass-is-half-full" view to boost business and consumer confidence.